

TENNESSEE STATE FUNDING BOARD

November 17, 2021

The Tennessee State Funding Board (the "Board") met on Wednesday, November 17, 2021, at 10:00 a.m., in the Cordell Hull Building, 1st Floor, House Hearing Room I, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
The Honorable David Lillard, State Treasurer
Commissioner Butch Eley, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Seeing a physical quorum present, Mr. Mumpower called the meeting to order and recognized Mr. Bob Rolfe, Commissioner of the Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Assistant Commissioner of Administration, ECD, to present the "FastTrack Report to State Funding Board" (the "Report"). Mr. VanderMeer reported that, as of the date of the October 25, 2021, Board meeting, the FastTrack balance was \$373,802,371.96. Since that time, \$149,800.00 in funds had been deobligated; \$5,348,000.00 in new grants and loans had been approved; and \$162,353.33 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$368,441,818.63 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of \$331,747,230.80, resulting in an uncommitted FastTrack balance of \$36,694,587.83. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$5,915,000.00, and if these projects were approved, the uncommitted balance would be \$30,779,587.83 and the total committed balance would be \$337,662,230.80, which represented 91.6% of the FastTrack balance.

Mr. Rolfe then presented the following FastTrack projects:

- **Faurecia Interior Systems Inc – Spring Hill (Maury County)**
FastTrack Economic Development Grant \$ 855,000
- **Virnig Manufacturing Inc. – Pikeville (Bledsoe County)**
FastTrack Economic Development Grant \$ 810,000
- **iHeart Media + Entertainment, Inc. – Nashville (Davidson County)**
FastTrack Economic Development Grant \$1,250,000
- **86 Pearson Lane, LLC – Lexington (Henderson County)**
FastTrack Economic Development Grant \$1,250,000
- **uLab Systems, Inc. – Memphis (Shelby County)**
FastTrack Economic Development Grant \$1,750,000

The Board member packets included letters and FastTrack checklists signed by Commissioner Rolfe, and incentive acceptance forms signed by company representatives. Mr. Mumpower inquired if the companies

that had signed the incentive acceptance forms fully understood the agreements, and Mr. Rolfe responded affirmatively. Mr. Mumpower then inquired if the checklists had been completed for each project and Mr. Rolfe responded affirmatively. Mr. Mumpower then inquired if all the projects included accountability agreements which would provide protections for the state in the event the entity could not fulfill the agreement, and Mr. Rolfe responded affirmatively. Mr. Lillard made a motion to approve the projects. Mr. Hargett seconded the motion, and it was unanimously approved.

Mr. Mumpower then stated that, pursuant to Tennessee Code Annotated Section 9-4-5202(e), the Board is charged with the responsibility of developing estimates of state revenue growth. In doing so, the Board evaluates and interprets economic data and revenue forecasts provided by various economists as well as persons acquainted with the Tennessee revenue system. The Board then heard testimony and reports regarding the economy from the following presenters : Ms. Laurel Graefe of the Federal Reserve Bank of Atlanta; Dr. William Fox of the University of Tennessee Boyd Center for Business and Economic Research; and Dr. Jon Smith, Dr. Joseph Newhard, and Dr. Fred Makara of East Tennessee State University. Mr. Mumpower recessed the meeting at 11:48 a.m. and the Board reconvened at 1:05 p.m. to continue hearing testimony regarding the economy. The board heard reports from the following presenters : Commissioner David Gerregano and Mr. Jeff Bjarke of the Tennessee Department of Revenue; and Mr. Bojan Savic and Mr. Joe Wegenka of the legislative Fiscal Review Committee (FRC) of the State of Tennessee (the "State").

The presenters forecasted economic growth and state tax revenue growth that reflected uncertainty in both the national and Tennessee economies. All presenters encouraged caution because of inflationary pressures, the duration of such pressures, the expiration of federal stimulus funding, and the lingering effects of the novel coronavirus pandemic. Those factors elevated the downside risk to both economic growth and state revenue growth. Mr. Mumpower then called for presentations regarding the Tennessee Education Lottery Corporation (TELC) from Mr. Savic and Mr. Wegenka; and Ms. Rebecca Hargrove, President and CEO, and Mr. Andy Davis, Chief Financial Officer, from the TELC. Legislation in 2003 created the TELC (Tennessee Code Annotated Sections 4-51-101 et seq.). Pursuant to Tennessee Code Annotated Section 4-51-111(c), the Board is required to establish a projected revenue range for the "Net Lottery Proceeds" [defined in Section 4-51-102(14)] for the remainder of the current fiscal year and for the next four (4) succeeding fiscal years.

The lottery presenters reported on historical results and growth reported in previous years for the various instant and numbers games, and Powerball and Mega Millions jackpot games, of the Tennessee Lottery program. The lottery presenters summarized recent changes for TELC and reported on year-to-date revenue and expenses for fiscal year 2021-2022.

Tennessee Code Annotated Section 4-51-111(c)(2)(A)(ii) requires the Board, with the assistance of the Tennessee Student Assistance Corporation (TSAC), to project long-term funding needs of the lottery scholarship and grant programs. These projections are necessary to determine if adjustments to lottery scholarship and grant programs are needed to prevent the funding for these programs from exceeding Net Lottery Proceeds. For this purpose, the Board heard testimony from Mr. Tim Phelps, Associate Executive Director for Grants and Scholarship Programs of TSAC, who reported the projected expenditures in lottery scholarship and grant programs through fiscal year 2025-2026. The lottery-funded scholarship programs as authorized through the 2021 session of the General Assembly include the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE Award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, HOPE Scholarship for Non-traditional Students, Dual Enrollment Grant, GIVE Act Grant, Helping Heroes Grant, Foster Child Tuition Grant, STEP UP Scholarship, TCAT Reconnect Grant, the Math & Science Teacher Loan Forgiveness Program, the Tennessee Middle College Scholarship, and Tennessee Reconnect Grant. Mr. Hargett asked if reserves had been built to the point where there should be consideration given to increasing the amount given to students. Mr. Phelps replied that all excess lottery funds have been

diverted to the Tennessee Promise endowment and that once a consensus determines that the Tennessee Promise program has reached a point of self-sufficiency, that would be the point when consideration would need to be given to increasing the HOPE Scholarship amounts.

Mr. Mumpower then presented a request from the Department of Education for \$23,000 from Net Lottery Proceeds for Lottery Scholarship Day for fiscal year 2022-2023, pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B). The requested funds will support improvements and enhancements for educational programs and purposes and such net proceeds shall be used to supplement, not supplant, non-lottery educational resources for educational programs and purposes. The Board acknowledged the recommendation from the Department of Education.

After requesting other business and hearing none, Mr. Mumpower recessed the meeting and stated that the Board would reconvene on November 23, 2021, at 2:00 p.m. in the Cordell Hull Building, 1st Floor, House Hearing Room I.

RECONVENED
November 23, 2021
2:00 p.m.

The Board reconvened on Tuesday, November 23, 2021, at 2:00 p.m., in the Cordell Hull Building, 1st Floor, House Hearing Room I, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
The Honorable David Lillard, State Treasurer
Commissioner Butch Eley, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Seeing a quorum present, Mr. Mumpower called the meeting to order and asked for approval of the minutes from the October 25, 2021, meeting. Mr. Hargett made a motion to approve the minutes. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Mr. David Thurman, Director of the Division of Budget with the Department of Finance and Administration, who presented the staff recommendations of the estimated revenues based on recurring growth rates in State taxes.

	<u>FY 2021-2022</u>		<u>FY 2022-2023</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Total State Taxes	6.80%	7.45%	2.00%	2.40%
General Fund	7.75%	8.50%	1.75%	2.25%

Mr. Mumpower requested a further explanation on what staff evaluated in the consideration of the estimated ranges. Mr. Thurman replied that the growth in the current year was the result of several one-time events including the federal stimulus package and a change in spending patterns. Mr. Thurman further replied that going forward there would be a resetting of spending patterns and working through the use of the federal stimulus and it was difficult to understand how that spending would level out. Mr. Thurman further stated that caution was the key word that was heard from all presenters and that consideration was given to how and when the transition would occur.

Mr. Hargett then stated that uncertainty was the issue that presenters had also pointed out. Mr. Hargett then noted that the estimated ranges were within the ranges given by the presenters. Mr. Hargett made a motion to approve the revenue estimates as recommended by staff. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Thurman then presented the staff recommendations of the estimates of the range for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for various statutory purposes.

	<u>FY 2021-2022</u>	<u>FY 2022-2023</u>	<u>FY 2023-2024</u>	<u>FY 2024-2025</u>	<u>FY 2025-2026</u>
Low	0.00%	1.75%	1.75%	1.75%	1.75%
High	1.25%	2.25%	2.25%	2.25%	2.25%

Mr. Thurman stated that presenters had noted that fiscal year 2020-2021 was an extraordinarily strong year and that there would be less growth for the current year. Mr. Thurman explained that the prior year's growth had a lot to do with the large prizes that facilitated the growth in revenue. Mr. Thurman further explained that the strong growth from fiscal year 2020-2021 resulted in the lower estimated growth rate for fiscal year 2021-2022 as it would be more of a resetting for the current year. Mr. Lillard made a motion to approve the lottery revenue estimates as recommended by staff. Mr. Hargett seconded the motion, and it was unanimously approved.

Pursuant to Tennessee Code Annotated 4-51-111(a)(3), the TELC may make a determination that returning a specific percentage of sales as net proceeds (35%) would not result in the maximum dollar amount of net proceeds being achieved. Mr. Mumpower acknowledged receipt of a letter from TELC notifying the Board that TELC had determined that an amount that maximizes net lottery proceeds to the State of Tennessee Lottery for Education Account is less than 35% of lottery proceeds for fiscal year 2021-2022. The amount currently projected for the fiscal year ranges from \$468 million to \$482 million. The Board acknowledged the letter.

Mr. Mumpower then recognized Mr. Charly Lyons, President and Chief Executive Office of the Tennessee Central Economic Authority (the "Authority") and Ms. Kelsey Dansby, Executive Administrator from the Authority, who presented a report on the Authority operations over the past year. Mr. Lyons explained that the Authority is an economic development organization that operates in the counties of Macon, Smith, Sumner, Trousdale, and Wilson. Mr. Lyons reported that the Authority was in great financial position. Mr. Lyons further reported that the Authority had its audit completed for fiscal year 2020-2021, and that the audit would be presented to the Authority's board in the first quarter of calendar year 2022. Mr. Lyons then noted that the Authority had received their annual funding and that the funding had not been included in the report provided to the Board as the report was as of October 31, 2021, prior to the receipt of the funding. No action was necessary.

Mr. Mumpower then recognized Mr. Ed Harries, Executive Director, and Ms. Danielle Brown, Controller, from the Tennessee State Veterans' Home Board (the "TSVHB"), who presented a report on TSVHB operations. Ms. Brown stated that the Board had received a financial report in their packet for the period July 1, 2021, through October 31, 2021. Ms. Brown reported that the TSVHB had a profit of \$609,919 for the month of August, which was greater than the budgeted loss of approximately \$992,000. Ms. Brown further reported that the TSVHB had a year-to-date profit through August 31, 2021, of \$579,009, which was greater than the budgeted loss of approximately \$2 million. Ms. Brown stated that the TSVHB was exceeding the budget in fiscal year 2022 primarily as a result of making adjustments to the Murfreesboro home, controlling expenses, and due to budgeting for no increase in Medicaid while receiving a \$45 per day increase entity wide. Ms. Brown also reported that the TSVHB had received \$246,930 from COVID-19 stimulus funding year-to-date as of October 31, 2021. Mr. Brown also stated that TSVHB had received approximately \$9 million in provider relief funding from the Department of Veterans Affairs (the "VA") in fiscal year 2021. Mr. Brown then stated that the TSVHB had approximately \$24.7 million in their LGIP accounts. Mr. Harries then reported that the TSVHB had maintained star ratings at the highest levels for their homes with the Humboldt and Knoxville facilities each receiving a CMS five-star rating, and the Murfreesboro and Clarksville facilities each receiving a four-star rating. Mr. Harries then stated that occupancy rates had been one of the largest challenges within the last year and that the occupancy rate for three of their facilities exceeded the current state average occupancy rate of 66.87%, with Murfreesboro being the only facility below the average. Mr. Harries then stated that the largest current challenge for the TSVHB was staffing. Mr. Harries reported that there had been a downward decline in staffing but the per patient per day clinical hours are above the legal requirements. Mr. Harries further explained that the decline in staffing was due to staff moving to various temp agencies and hospitals where the pay scale is greater than what TSVHB can pay. Mr. Harries stated that with their current staffing, growth in census had to be constrained to allow for proper care of residents. Mr. Harries noted that the per patient per day hours for all four facilities was greater than the amount required by the state and the VA. Mr. Harries then stated that the TSVHB was recruiting, looking at raising their wage scales, and exploring benefit options to attract new recruits and retain current employees. No action was necessary.

Mr. Mumpower then recognized Mr. Thomas Kim, Deputy Chief Investment Officer and Director of Investment of the State of Tennessee Treasury Department ("Treasury"), and Mr. Markus Klar, Senior Portfolio Manager, Treasury, who presented a report on the State Pooled Investment Fund ("SPIF") for the fiscal year ended June 30, 2021. Mr. Klar stated that the SPIF had a yield of 1.57% net of fees prior to the COVID-19 pandemic in fiscal year 2019-2020, which was 33 basis points higher than the performance of 30-day US Treasury Bills. Mr. Klar continued, stating that the yield had dropped substantially to 0.08% for the SPIF in fiscal year 2020-2021, which was 2 basis points higher than the 30-day US Treasury Bill. Mr. Klar reported that the yield net of fees beginning in fiscal year 2020-2021 was 0.31%, by Christmas was 0.14%, and by May was at 0.015% with isolated instances of certain treasuries trading at negative yields in the treasury market. Mr. Klar further reported that the Federal Reserve took multiple actions in June of 2021 to stabilize the market, avoiding the pull toward negative rates. Mr. Klar further stated that the treasury market had been stable since the June meeting of the Federal Reserve. Mr. Klar then reported that the SPIF started the fiscal year with a balance of around \$17 billion and finished the fiscal year 2020-2021 with a balance of approximately \$20.5 billion, a growth of \$3.5 billion year over year. Mr. Klar further reported that of the approximately \$3.5 billion increase, \$2.5 billion was placed in the General Fund, \$500 million was placed in the Restricted Fund, and the remaining \$500 million comprised the growth in the Local Government Investment Pool ("LGIP"). Mr. Klar then detailed the composition of the SPIF portfolio during fiscal year 2020-2021. Mr. Klar stated that the portfolio was more liquid in fiscal year 2020-2021 compared to the prior year with an approximate 2.0% increase in the U.S. Treasuries and U.S. Agencies sector in the average portfolio composition. Mr. Klar stated that the largest components allowing for the shift in composition were commercial paper ("CP") and certificates of deposit ("CDs"). Mr. Klar further stated that the investment in CP was initially decreased during the COVID-19 pandemic to reduce credit risk and then subsequently increased after the market had stabilized, resulting in a year over year increase of 3.25% in the allocation of CP in the portfolio in fiscal year 2021. Mr. Klar continued stating that the increase in CP investments was offset by a 5% decrease in bank investments in the SPIF from CDs within the portfolio.

Mr. Klar explained that banks that were flush with cash did not have an incentive to borrow from the state. Mr. Klar then stated that the net result of the increase in portfolio composition of the CP and the decrease in composition from CDs was an increase in investments of U.S. Treasuries and U.S. Agencies. Mr. Klar then reported that the average life of the portfolio was shortened to reduce risk. Mr. Klar further reported that the Weighted Average Maturity ("WAM") for the portfolio was reduced from approximately fifty (50) days to forty-five (45) days and the Weighted Average Life ("WAL") was reduced from approximately eighty (80) days to fifty (50) days in fiscal year 2021. Mr. Klar explained that the reduction in the WAL was primarily the function of less floating rate investments being present in the portfolio in fiscal year 2021 as there was less supply of the investments. No action was necessary.


Mr. Klar then presented a report on the Intermediate Term Investment Fund ("ITIF") for the fiscal year ended June 30, 2021. Mr. Klar explained that the ITIF was established by the Board in 2013 to provide an alternative investment for any participant, eligible to participate in the LGIP, seeking a longer duration fund that does not provide liquidity but might provide an enhanced return from investing further out on the yield curve. Mr. Klar explained that the eligible investments in the ITIF were the same as in the SPIF but that there were less liquidity requirements in the ITIF allowing for investments with maturities that were further out on the yield curve. Mr. Klar then reported that in fiscal 2020 the yield net of fees on the ITIF was 1.98% and that the net yield had dropped to 0.17% in fiscal year 2021. Mr. Klar explained that the yield curve had been anchored out to three years for most of the fiscal year. Mr. Klar further reported that the size of the portfolio remained the same, at approximately \$12 million. Mr. Klar then reported that the WAM was approximately 2.90 years for fiscal year 2021, and that the fund was a little more liquid in fiscal year 2021 as there was about 20% more in cash held in the portfolio than prior years. No action was necessary.

Mr. Mumpower then recognized Mr. Kim to present a revision to the SPIF Investment Policy (the "Policy") for consideration and approval. Mr. Kim stated that during a retirement-related transition of duties of the day-to-day management of cash investments, it was discovered that the index utilized by the SPIF as a performance benchmark had been liquidated due to the very low interest rate environment. Mr. Kim then stated that after the discovery, staff researched different benchmarks, looked at what other states and private sector entities were utilizing, and concluded that a 30-day U.S. Treasury Bill index would be a good fit for their needs. Mr. Kim then stated staff recommended that the state use a 30-day U.S. Treasury Bill index as a cash benchmark. Mr. Lillard made a motion to approve the revision to the Policy. Mr. Eley seconded the motion, and it was unanimously approved.

After requesting other business and hearing none, Mr. Mumpower made a motion to adjourn the meeting, and Mr. Lillard seconded the motion. The motion was unanimously approved, and the meeting was adjourned.

Approved this 20th day of December 2021.

Respectfully submitted


Sandra Thompson
Assistant Secretary